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FM SECSTATE WASHDC

TO RUEHHE/AMEMBASSY HELSINKI PRIORITY 1669

RUEHRA/AMEMBASSY RIGA PRIORITY 1284

RUEHSM/AMEMBASSY STOCKHOLM PRIORITY 7129

RUEHTL/AMEMBASSY TALLINN PRIORITY 7114

RUEHVL/AMEMBASSY VILNIUS PRIORITY 2007

RUEHWR/AMEMBASSY WARSAW PRIORITY 3632

INFO EU INTEREST COLLECTIVE PRIORITY

EU MEMBER STATES COLLECTIVE PRIORITY

RUEHBS/USEU BRUSSELS PRIORITY

UNCLAS SECTION 01 OF 03 STATE 038591

SENSITIVE

SIPDIS

E.O. 12958: N/A

TAGS: PREL PGOV ECON ENRG LG LH PL RS SW FI

SUBJECT: ACTION REQUEST: DEMARCHE ON BALTIC ENERGY SECURITY

REF: A. A) 08 STATE 106338

1B. B) USEU 311

1C. C) RIGA 164

SUMMARY

11. (SBU) The Prime Ministers and Energy Ministers of Estonia, Latvia and Lithuania will meet in Vilnius on April 26-27 to discuss energy security; Poland, Sweden and Finland will be represented at lower levels, as will CEOs of several Baltic energy companies. The United States supports and has consistently advocated for regional efforts among the Baltic countries to improve their energy security. Addressee posts -- including Embassies Stockholm, Helsinki and Warsaw -- should draw on the points in paragraph 6 to emphasize prior to the April 26-27 summit strong U.S. support for regional cooperation to enhance Baltic energy security, and the importance of moving beyond discussion and on to the actual implementation of cooperative energy projects.

BACKGROUND

12. (SBU) Isolated from EU electrical markets and dependent on imported gas from Russia, the Baltic States can be characterized as "energy islands." Baltic dependence on Russian electricity will increase when the Ignalina nuclear power plant is decommissioned at the end of 2009 and Estonia's oil shale industry is subjected to costly EU-imposed environmental upgrades by 2016. Given historically tense political relationships with Russia, the Baltic States view energy dependence as a threat both to sovereignty and European integration.

13. (SBU) The Baltic States and Poland have sought to diversify their energy sources and increase connectivity of electrical grids with each other, their Nordic neighbors, and other EU Member States. While some progress has been made, domestic interests in each of the countries has complicated cooperation and undermined regional energy security. For example, delays in reaching an accord with Lithuania on a replacement nuclear power plant are driving Poland and Estonia to examine their own nuclear alternatives, and the inability of Latvia and Lithuania to agree on a terminus for a power connection to Sweden has delayed this much-needed connection. The relatively low cost of the electricity the Baltic states receive from the Northwest Russia grid has contributed to the inertia, notwithstanding long-term concerns about over-dependence on Russian energy.

¶4. (SBU) Given the small size of the three Baltic markets, close cooperation among them will be key to the success of any strategy to enhance energy security. The EU also could ameliorate the situation by providing the financial and technical support needed for Baltic energy integration and the development of additional energy sources. Although the U.S. role is a subsidiary one, we believe that in the run-up to the summit, it is important that the U.S. reiterate our strong support for close cooperation among the Baltics and our conviction that now is the time to finalize agreements and move on to project implementation.

TALKING POINTS

¶5. (SBU) The Department requests Posts to draw on the background and points provided to communicate to host country officials U.S. views on Baltic energy security, prior to the April 26-27 summit, at the highest appropriate level. Our overall objective is to reiterate strong USG support for close energy cooperation among the Baltic states and to encourage them to translate their extensive discussions into agreement and prompt implementation. More specifically, we want to: (1) advocate the development of timelines to ensure that steady progress is made on the implementation of energy projects; (2) encourage the Baltic states, and other interested players such as Sweden and

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Finland, to work closely with the EU to fully integrate the Baltic states into the EU electrical grid; (3) promote a prompt agreement among the Baltic states and Poland on the construction of a nuclear power plant to replace Ignalina; and (4) encourage Latvia and Lithuania to quickly reach agreement on the location of the Swedlink terminus so that construction can commence.

¶6. (SBU) BEGIN POINTS:

-- We applaud the initiative of the Prime Ministers of the Baltic States to form a Working Group to intensify energy cooperation with each other, and with key partners such as Poland, Sweden and Finland.

-- Like you, we see energy security as a major challenge facing the Baltic republics and many other European states in the years ahead, one that has profound economic and national security implications. We believe that close cooperation among the three Baltic states is the likeliest path to greater energy security.

-- We encourage the establishment of a clear timeline for final decisions and the implementation of projects under consideration. A timeline will help key players to measure progress and coordinate further implementation.

-- We believe the EU can play a leading role in providing the financial and technical support needed to consummate the projects under consideration and we strongly support the work of the EU's High Level Group on Baltic energy. We encourage all three Baltic republics to engage proactively with the EU to help shape EU energy policy and its prioritization of projects to increase the number of Baltic interconnections and grid redundancy.

-- With the impending closure of Ignalina, it is particularly important that outstanding issues surrounding the construction of a replacement nuclear plant at Visaginas be promptly resolved. While a regional reactor would have many advantages, we also understand Estonia's interest in pursuing the option of its own grid-appropriate nuclear reactor. We are prepared to move forward as soon as practicable to organize the long-delayed TDA-sponsored Orientation Visit to familiarize the partners with U.S. nuclear technologies and financing options.

-- Other forms of cooperation among the Baltic states -- such as a regional LNG terminal -- would also reduce dependence on Russian gas.

-- For Vilnius and Riga: We encourage you to come to a final decision on the Swedlink project. We do not have a view as to where the Baltic terminus for Swedlink should be located. Regardless of where the terminus is located, the entire Baltic region stands to gain from its completion.

-- For Tallinn, Riga and Vilnius: Given the small size of the three Baltic energy markets, greater market openness will help ensure that the benefits of the energy projects under consideration are fully realized. We encourage you to take concrete steps to open your energy markets to each other.

-- For Tallinn: We applaud the efforts Estonia has made to address both its own energy security needs and the pressing environmental problems created by your current singular dependence on oil shale. U.S. technologies, in nuclear and other alternate energy sectors, fit well with this strategy. They provide cutting edge solutions that meet both energy supply needs and Estonia's goal to reduce carbon emissions. We look forward to working with you to promote U.S.-Estonia commercial cooperation. We note that you are working with our Department of Energy on an Oil Shale Technology MOU. We anticipate this cooperation will yield new ways to reduce dependence on oil shale while cutting CO2 emissions from residual oil shale electricity production.

-- For Stockholm and Helsinki: We believe that with your sophisticated energy infrastructures, geographic proximity to the Baltic states, and considerable experience in the EU, your governments have an indispensable role to play in the process of ensuring EU engagement and in spurring the

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Baltic states to agreement and implementation. We believe you can also play a positive role in encouraging the Baltic states to achieve greater openness in their energy markets, which will reduce their dependence on any single source of energy. Please let us know when you perceive opportunities for us to contribute to the objective of enhancing the energy security of the Baltic states.

¶7. (U) Please report responses by April 24, slugging responses for EUR/NB - Alan Meltzer and EUR/ERA - Erin McConaha.

CLINTON